

**Keynote Speech
for Opening Dinner//
17th Annual Plenary Session of
Korea-U.S./U.S.-Korea Business Councils**

**Shilla Hotel
(19:00 21:00)**

Strengthening Korea-U.S. Relations for a Brighter Future

July 1st, 2004

**By Honorable Hun-Jai Lee
Deputy Prime Minister &
Minister of Finance and Economy**

I Opening Remarks

Chairman Greenberg,
Chairman Cho,
Council members,
Ladies and gentlemen:

I am delighted to be here for the opening of the 17th Annual Plenary Session of the Korea-US Business Council.

I know that the Council has evolved into a key channel of economic cooperation between the private sectors of Korea and the US.

Indeed, the Council provides a major venue for free and open discussion of important issues of mutual interest and of ways of improving the investment climate for both our countries.

I am sure the 17th Session will address many important policy issues and ways to strengthen economic cooperation between our two countries.

I will first touch on the performance of the Korean economy and major policy tasks ahead.

I will then talk about Korea-U.S. relations and how we can strengthen economic cooperation.

II Current Situation and Policy Issues of the Korean Economy

Ladies and gentlemen:

The Korean economy has been recovering since the third quarter of 2003. The recovery continues to be led mainly by the export sector, while domestic demand remains weaker than expected.

Accordingly, the government is sparing no effort to achieve a better-balanced recovery by putting domestic demand on an upward trajectory.

[1] Job Creation through Stimulating Investment

In this regard, the government has placed the highest priority on creating more jobs by stimulating investment.

The government has placed a great deal of emphasis on identifying and improving or eliminating regulations that hinder investment and what I call "creative entrepreneurship."

Beyond that, the government has placed high priority on promoting the development of the service sector by improving or eliminating regulations that have favored the manufacturing sector over the service sector.

The government also intends to increase the service sector's competitiveness through greater market opening.

[2] Enhancing Transparency and Accountability

A second major way in which the government intends to strengthen the Korean economy is by significantly increasing transparency and accountability.

The government will work to make transparency and accountability unavoidable for businesses and financial institutions operating in Korea.

Toward this aim, we introduced last year the "Class Action Lawsuit." And we continue to work to improve our accounting standards.

In addition, we continue to encourage businesses and financial institutions to improve corporate governance and transparency and accountability from the inside.

[3] Establishing Advanced Labor Relations

A third major area of government focus is labor relations and labor market flexibility.

There is concern in some circles, but I can assure you the basic direction of our labor policy remains forthright and unchanged: to improve our labor laws and regulations to meet global standards and to increase the flexibility of our labor market.

That said, given the nature of labor relations, moving in this direction will understandably involve growing pains. The government will continue to maintain an unbiased posture concerning labor relations.

The government will strive to promote better labor relations through dialogue and compromise.

However, the government will deal strictly with illegal actions by labor or management.

I am encouraged that, during a meeting with the President in May, labor, management and government agreed to set up the "Council of Representatives."

This is a major step forward in promoting dialogue and compromise between labor and management.

[4] Financial Market Stabilization and Market Advancement

A fourth area of major focus is financial sector stability and risk management. The government will continue to work to eliminate problems such as consumer credit delinquents and others that negatively affect financial market stability.

At the same time, the government will work to strengthen the financial sector's risk management capability, so that risk factors can be identified and dealt with at an early stage.

To this end, we are establishing a screening system for consumer credit based on debtors' repayment capacity. The role of credit bureaus will be strengthened.

In addition, the government will strive to upgrade the financial sector. We will create an environment which promotes free competition among financial institutions and encourages reform and innovation.

In line with the global trend for financial institutions to broaden their areas of activity, we will overhaul financial laws by function.

We will also review financial regulations from a zero base and work toward adopting a negative list approach.

To deepen the domestic investor base, the government will also promote private equity funds and increase the ability of pension funds to invest in the stock market.

For their part, financial institutions will have to behave responsibly and work to promote financial market stability. They must also develop business models that meet the different needs for their services.

[5] Pursuing Northeast Asian Economic Hub and Attracting FDI

Let me now turn to the fifth major area of focus, developing Korea into a Northeast Asian economic hub.

Last year, the government designated Incheon, Gwangyang and Pusan and their vicinities as Free Economic Zones (FEZs).

And the government has been working to ensure that businesses setting up in these FEZs are provided with a level playing field and ideal conditions for carrying out their business activities.

At the same time, the government is striving to provide foreigners and their families relocating in these FEZs with world-class living conditions, education facilities and hospitals.

The government is aiming to establish Korea as a Northeast Asian financial hub, centering on the asset management business.

And to attract foreign direct investment to high-tech and high value-added sectors, the government has introduced the cash grant system.

We are also providing a one-stop service for foreign-invested companies encompassing a whole range of services from investment counseling to post-investment management.

III. Major Economic Issues and Strengthening Cooperation between Korea

and the U.S.

Ladies and gentlemen:

Let me now turn to my second topic, strengthening cooperation between Korea and the U.S.

I think it goes without saying that, for the past half century, the U.S. has not only been Korea's close diplomatic and military ally, but a major economic partner as well.

Even now the U.S. remains the largest investor in Korea. The latest data show that, during the first quarter of 2004, U.S. FDI into Korea amounted to \$ 2.1 billion, representing 70 % of total FDI.

And the recent takeover of Koram Bank by Citigroup is a clear indication of the confidence foreign investors have in the potential of the Korean economy.

The U.S.'s share of Korea's total trade has recently declined, but bilateral trade still reached \$ 59 billion in 2003, showing clearly that the U.S. remains Korea's major trading partner.

That said, a worrisome byproduct of such vibrant trade is the possibility of trade friction.

Given bilateral trade of \$ 60 billion, the emergence of some trade issues is perhaps inevitable.

More recent trade issues have concerned intellectual property rights, telecommunications and automobiles.

I think it goes without saying that escalating trade issues into trade disputes does no one any good.

Last April, U.S. and Korea ironed out their differences in WIPI, a top issue for both, through lively discussion among our governments and the industries concerned.

I believe other trade issues can be resolved in the same agreeable way.

Still, to develop our bilateral economic relations a step further, I believe it is necessary to establish an institutional framework.

In this regard, the Korean government has since 1998 actively pursued the signing of the BIT with the U.S.

The BIT remains a priority for advancing economic cooperation between Korea and the U.S. and is an area requiring cooperation between the governments and private sector as well.

More recently, some have raised the possibility of forming a Korea-U.S. FTA over the medium to long term.

This too is an encouraging sign of closer economic ties between Korea and U.S.

<Political and Security Agendas>

Ladies and gentlemen:

Let me quickly turn to cooperation on the security front.

There has been some concern about the reduction in U.S. Forces in Korea, that it may signal a weakening of the Korea-U.S. alliance.

Such concern is overdone.

As noted by Moody's as well as military experts in recent weeks, the cut in U.S. Forces does not mean a weakening of Korea-U.S. military strength or the military and diplomatic alliance.

A critical factor in alleviating security concerns on the Korean Peninsula is the resolution of North Korea's nuclear issue.

At the third round of the Six-Party Talks held in Beijing last week, the ROK, the U.S. and the DPRK tabled detailed proposals for the peaceful resolution of

the North Korean nuclear issue.

In particular, the U.S. stated that, along with other participating parties, it will seriously consider providing the DPRK with energy assistance, security assurances, and engage in dialogue on the removal of the DPRK from the list of state-sponsors of terrorism, lifting of sanctions, and the normalization of diplomatic relations, if the DPRK permanently, and verifiably dismantles its nuclear programs.

The U.S. road-map is an indication of its willingness to resolve the nuclear issue in a peaceful manner and could contribute to an expeditious settlement to this end.

Aside from this, there have been other encouraging developments in inter-Korean relations as well.

During the inter-Korean military talks in June, the two sides agreed to avoid naval clashes in the West Sea and stop broadcasting propaganda along the DMZ.

<Efforts to Combat Terrorism>

Before closing, ladies and gentlemen, let me briefly touch on the issue of terrorism.

Terrorism poses a tremendous threat to both global security and the global economic recovery. It is therefore critically important that an international coalition against terrorism be forged.

The U.S. has been leading global efforts in this area. I can assure you that Korea will actively participate in the international campaign against terrorism as well.

IV. Closing Remarks

In closing ladies and gentlemen, Korea-U.S. relations have gone from strength to

strength over the past 50 years, militarily, diplomatically, and economically.

To continue to nurture this relationship, it is important that the two sides meet frequently to deepen our understanding of each other.

In this sense, the Korea-U.S. Business Council plays an important role. I hope these sessions will continue to generate lively and fruitful discussion of issues of great importance to future Korea-U.S. relations.

Thank you very much.